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SUBJECT: NYSE-NASDAQ: REP OFFICES PENDING, PROBLEMS LOOMING

REF: A. Shanghai 250  
[1](#)B. SHANGHAI 337

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[1](#)1. (SBU) Summary: According to NASDAQ and NYSE representatives, it was unlikely that their applications to open representative offices would be approved soon. Although the applications were submitted at the beginning of July, CSRC contacts told NASDAQ and NYSE that approval was several months away. Representatives were increasingly concerned about Chinese regulations that limited the ability of Chinese companies to form special purpose vehicles (SPVs). No new SPV application has been approved since September 2006. By 2008, there will be few Chinese companies left that are eligible to list overseas.

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NYSE/NASDAQ Rep Offices Still Months Away  
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[1](#)2. (SBU) NASDAQ Vice Chairman Mike Oxley and NASDAQ Head of Asia Pacific Eric Landheer told Econoff, on August 7, that the China Securities Regulatory Commission (CSRC) was reviewing their application for a representative office. Landheer said that NASDAQ had submitted its paperwork as soon as the CSRC had allowed them to at the beginning of July (Ref A). The CSRC was "studying the application" and had asked for additional documentation for consideration, such as an "office manual." Landheer understood from the CSRC that it would be two-three months before their application was approved.

[1](#)3. (SBU) On August 13, New York Stock Exchange (NYSE) executive Director for Asia Pacific Yeeli Zheng told Econoff that the CSRC was also still considering their application for a representative office. Her contacts at the CSRC told her that

there did not appear to be any problem with the application, but that it would take "several months to give it the green light." Zheng understood that the application was "going through technical procedures before it could be sent to the State Council for approval." Zheng said that the CSRC had refused to accept NYSE's application for an office that would represent all of the stock exchanges under the NYSE Euronext umbrella. The NYSE re-submitted its application to open a representative office just for NYSE LLC.

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Chinese Overseas IPOs Are Drying Up  
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14. (SBU) NYSE's Zheng noted the successful listings of two Shanghai-based companies (E-House and WuXi PharmaTech) on the NYSE in early August. The current implementation of China's "Policy Number 10" or "September 8 Policy" from September 2006 (Ref B) meant that there would be fewer and fewer companies able to list in the United States. (Note: Zheng referred to the "Provisions for Foreign Investors to Merge with Domestic Enterprises." Since this was implemented in September 2006, no Chinese company has been approved to form a special purpose vehicle (SPV) outside of China. Forming an SPV in a tax-friendly country such as British Virgin Islands or the Caymans has been the method of choice for most Chinese companies to list on stock exchanges outside of China. End note.)

15. (SBU) Zheng said there were "two groups fighting in the government" with different visions for developing China's capital markets. One group supported Chinese companies pursuing capital overseas. However, the group that was currently in political ascendance wanted to "keep the good companies at home." NYSE continued to pursue companies that had received approval to form an SPV prior to September 2006. There were

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enough such companies to keep NYSE busy with initial public offerings (IPOs) through the end of 2008. After that, "IPOs will be hard," she said.

16. (SBU) Zheng did note that forming an SPV was not the only way that Chinese companies could list on an overseas exchange. It was, however, the preferred route for small- and medium-sized companies. The tax benefits of forming an SPV greatly outweighed those of listing overseas as a Chinese registered company.

17. (SBU) NYSE has also started pursuing companies listed on Chinese markets (A-Share companies) to list on the New York exchange. According to Zheng, these secondary listings, while not as profitable or visible as IPOs were the wave of the future.

18. (SBU) NASDAQ's Landheer was also concerned about NASDAQ's long-term future in China if companies were unable to list overseas. He noted the irony of being able to open an office, but having no business.

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